

2003 Joint Committee on Audit

OIC-GM

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Social agency chief indicted

George inquiry brings conspiracy count for Gee

By GINA BARTON and GEORGIA PABST
gbarton@journalsentinel.com

Posted: March 16, 2004

The president of a Milwaukee social service agency that administers millions of dollars in federal grants has been indicted on allegations he took part in a kickback scheme with former state Sen. Gary George.

Carl A. Gee, president and chief executive officer of the Opportunities Industrialization Center of Greater Milwaukee Inc., which helps administer the Wisconsin Works welfare reform program, was charged with one count of conspiracy Tuesday in federal court in Milwaukee.

Gee is accused of helping to funnel nearly \$500,000 illegally to George and to a foreign television station controlled by George's family.

"The indictment alleges that OIC gave this money to George in part to influence his actions as a state senator," said U.S. Attorney Steven M. Biskupic.

George, who lost a recall election to Spencer Coggs in November, has since pleaded guilty to a federal felony in connection with the alleged conspiracy. The plea agreement calls for prosecutors to recommend a maximum five-year prison term at a May sentencing hearing. In return, George promised to cooperate with federal investigators.

Since 1997, the federal government has given Wisconsin more than \$300 million a year for W-2. Between 1997 and 2002, the time period covered by the indictment, George was one of the premier power brokers in the state Senate and helped decide where that money went. Much of it - nearly \$250 million - ended up under OIC's control.

George illegally received \$270,000 with the cooperation of Gee and attorney Mark E. Sostarich, who represented the center, the indictment alleges. Sostarich has admitted kicking back 80% of his monthly retainer and 50% of additional legal fees from the center to George. Sostarich pleaded guilty to a federal conspiracy charge in January and likely will receive a 10- to 16-month prison term when he is sentenced May 28.

Federal prosecutors allege that Gee and George negotiated Sostarich's retainer agreement. When Gee approved payments to Sostarich, he knew part of the money would be illegally routed to George, according to the indictment.

Milwaukee

Allegation

Carl A. Gee is accused of helping to funnel nearly \$500,000 illegally to former state Sen. Gary George and to a foreign television station controlled by George's family.

From the Archives

George pleads guilty to fraud (1/22/04)

Gee also is accused of recommending to the agency board that one of its subsidiaries, the Opportunities Industrialization Association, buy \$200,000 worth of stock in the Atlantic Broadcasting Association, a Virgin Islands television station owned by George's family members. Gee gave George the money, but the association never received the stock. Gee personally received \$50,000 from George later as repayment of a prior investment in the television station, according to the indictment.

Gee's attorney, Dennis Coffey, said he had not seen the indictment and could not discuss it. He said he did not know where his client was Tuesday evening.

Richard Porter, chairman of the agency board, said he has spoken with the U.S. attorney's office as part of the investigation. He also acknowledged that the state is now reviewing the agency's contracts.

"It's a great tragedy for Carl, but he assures me his name will be cleared," Porter said. But "the organization is more than one person. . . . It remains to be shown that we have done anything but provide quality service at a good price."

Marc Marotta, secretary of the state Department of Administration, said Tuesday that the review of state contracts involving George, the agency and other contracts continues.

"Obviously, in light of this there will be greater focus on OIC contracts and dealings with Carl to make sure there hasn't been any impropriety with respect to state money," he said. "This raises the stakes a bit."

A 2001 audit report done for the agency shows it received a vast array of federal and state grants for a host of programs, though its W-2 money was by far its largest revenue source.

The agency, which employs about 300 people, was awarded some \$54.1 million in W-2 funds that year and spent about \$28.6 million of that, according to the audit. It also received grants through four other state departments: Health and Family Services, Transportation, Public Instruction and Administration, for a total of about \$66 million.

The agency's top executives enjoyed large pay increases between 1997, the first year of W-2, and 2001. During that period, the agency's overall annual budget more than doubled to \$40 million.

Gee, the CEO, was paid about \$135,000 in 1997, but his pay had risen 52% to more than \$205,000 in 2001, according to its tax returns.

From the March 17, 2004 editions of the Milwaukee Journal Sentinel

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The state report issued Friday said that the center had provided only a general summary of legal work it said Sostarich did, but didn't provide sufficient detail.

Federal indictments against the two said the center paid Sostarich a monthly retainer of \$5,834 and later \$4,667 over some six years.

The \$216,000 is the portion of the payments that came from W-2 funds, the state report said.

Richard Porter, chairman of center's board, said Sostarich's legal fees were legitimate payments for real legal work. He said the center was considering appealing the state's demand for repayment.

"Of the tens of millions of dollars that we have had the honor of administering for the public, this is a very small area where there is a dispute about the use of the money," Porter said.

The state also ordered national accounting firm, Virchow Krause, to conduct an annual audit of the center's finances. Work done by the center's accounting firm, Coleman & Williams, will be part of the audit.

Back to Top



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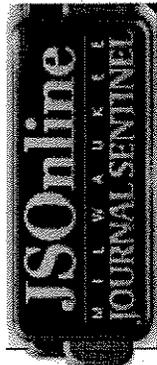
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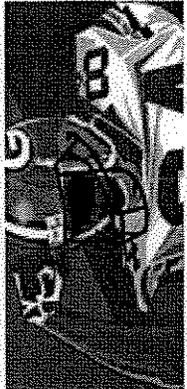


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W-2 agency ordered to refund state

\$216,000 used mostly for kickbacks to George, report says

By STEVE SCHULTZE
sschultze@journal sentinel.com

Posted: Aug. 13, 2004

A Milwaukee social service agency must pay back the state's W-2 welfare reform program some \$216,000 that federal prosecutors say was mostly used to pay kickbacks to former state Sen. Gary R. George, according to a state report issued Friday.

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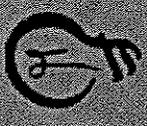
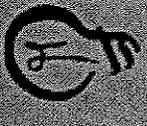
The agency, Opportunities Industrialization Center of Greater Milwaukee Inc., must refund that amount or else the state will deduct it from future W-2 payments the agency gets, said Richard P. Jones, a spokesman for the Department of Workforce Development.

The center is the state's largest private W-2

Quotable

“Of the tens of millions of dollars that we have had the honor of administering for the public, this is a

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provider and currently holds a two-year contract worth \$84.4 million. That contract remains under review by the state, Jones said. The industrialization center previously held W-2 contracts worth some \$250 million.

A report by the state found that the center was unable to show that any work was done for \$215,997 in legal payments it made to Milwaukee attorney Mark Sostarich from 1997 to 2002. George and Sostarich have pleaded guilty to a kickback scheme in which Sostarich passed on to George 80% of legal fees that Sostarich was paid by the center.

The state's report says that the industrialization center had provided only a general summary of legal work it said Sostarich did.

That summary "does not provide sufficient detail to determine the specific work that was done, when it was done and the amount that was paid," the report says. Federal indictments against George and Sostarich said the center paid Sostarich a monthly retainer of \$5,834 and later \$4,667 over some six years.

The \$216,000 represents the portion of those payments that came from W-2 funds, the state report says.

Richard Porter, chairman of the industrialization center's board, said the legal fees paid to Sostarich were legitimate payments for real legal work. He said the center was considering appealing the state's demand for repayment.

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very small area where there is a dispute about the use of the money. ¶

- Richard Porter, chairman of the industrialization center's board

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- 8/5/04: George gets four years

The state also ordered a new outside firm to conduct an annual audit of the industrialization center's finances, a move that's been resisted by the industrialization center. The state designated Virchow Krause, a national accounting firm, to do the job because the work done in the past by the center's local accountant - Coleman & Williams - will be part of future audits.

Porter, in an interview, said the state had "ordered us to fire our black accountants and use their white ones." Jones, the Workforce Development spokesman, said that move "has absolutely nothing to do with race."

In a related matter, Carl A. Gee, the industrialization center's chief executive, is scheduled to stand trial Monday in federal court on a conspiracy charge in connection with the kickbacks to George.

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October 1, 2004

State Representative Suzanne Jeskewitz
State Capitol, Rm 314 North
P. O. Box 8952
Madison, WI 53708

Dear State Representative Jeskewitz:

As an organization that partners with all levels of local and state government for the betterment of Milwaukee, the Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM) values its relationships with elected officials. For this reason, I feel it is important for you to know that OIC-GM has implemented changes in leadership for the good of the organization and the people it serves. Mr. Carl Gee, President/Chief Executive Officer (CEO) and Mr. William Clay, Chief Operations Officer (COO) are no longer employed by the organization nor do they have any influence on our decision making process. OIC-GM's existence as a force for good in Milwaukee is in no way dependent on any one individual or executive officer. The affairs of the corporation are managed by its Board of Directors, which has taken swift action to reassure the entire community of the integrity of the agency's work.

OIC-GM's Board of Directors understands that, as a civil servant, you may have concerns regarding the use of taxpayer dollars that have been entrusted to the organization for the operation of various programs. For this reason, the Board has created an interim executive staff. The Board voted to expand my role as Chairman to include CEO responsibilities, and Ms. Georgia Cameron, Senior Vice President, was appointed Chief Operations Officer. The new leadership team, which includes current Chief Financial Officer Cordelia Ekwueme, leaves a solid management infrastructure in tact. Under this leadership team, OIC-GM and its affiliates will continue to provide quality community and economic development services in Milwaukee.

I also want to reiterate that OIC-GM's commitment to the community remains steadfast, and it will honor all conditions of its local, state and federal contracts. OIC-GM undergoes an annual independent audit and every year, the agency received a subjective opinion that its financial statements presented fairly, in all material respects, the financial position of the organization and the results of its operations. Using Government Auditing Standards, the auditors found no instance of noncompliance in our internal controls over financial reporting and with certain provisions of the laws, regulation, contracts and grants under their review. Additionally, OIC-GM's financial records have been

REVEREND LEON H. SULLIVAN, FOUNDER

Richard H. Porter, Chairman of the Board/CEO Georgia M. Cameron, Senior VP/COO Cordelia I. Ekwueme, Senior VP/CFD

consistently evaluated by various funding sources as part of regular reviews for compliance.

The OIC-GM Board of Directors will maintain a heightened level of involvement to assure the community and civic leaders that its business transactions merit continued confidence. OIC-GM has provided services to the greater Milwaukee community for over 37 years. During this time, the organization has maintained a good reputation for exceeding its contracted program benchmarks and creating innovative solutions for varied social problems.

OIC-GM will remain a viable force in the state, city and community, working to create a meaningful quality of life for families and individuals. We will remain focused on our mission of "helping people help themselves." To that end, I am anxious to discuss any concerns you may have about our agency, and I invite you to see, first hand, how our many programs are benefiting the community and your constituents. I can be reached at 414.908.3462, and look forward to continuing our working relationship.

Sincerely,



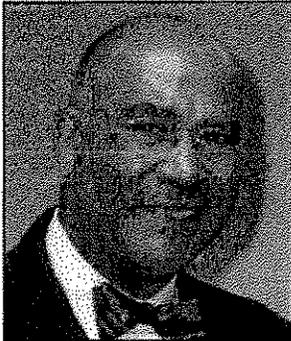
Richard H. Porter
Chairman/CEO

Attachments



"Helping People Help Themselves"

**OPPORTUNITIES INDUSTRIALIZATION CENTER
OF GREATER MILWAUKEE, INC.**



**RICHARD H. PORTER,
CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Only the fourth Board Chairman of this 37-year-old organization, Richard H. Porter carries on a legacy of excellence. His qualifications are impressive, as is his commitment to Opportunities Industrialization Center.

Porter began his tenure as interim CEO at a difficult time, but his determination all but assures that OIC-GM will remain a strong entity for economic and social development in Milwaukee.

As Chairman of the Board, Porter is a natural successor to OIC-GM's top executive position. For more than 30 years, he has helped build the organization from a single focused training and development social service agency with a \$600,000 annual budget into a multi-facet community economic development corporation with a budget in excess of \$60 million. He has been a steadfast presence in the community and a trusted resource in legal, financial and management matters. His goal for OIC-GM is simply to provide the best, most comprehensive service to the people with the greatest need – "to help people help themselves." As CEO, he provides visionary leadership and is accountable for the overall success of OIC-GM, all its programs and its affiliates.

An attorney with more 30 years of professional experience, Porter received his Law degree from Yale in 1972, and a bachelor's degree from Dartmouth College, where he graduated Magna Cum Laude. Porter is a partner with the law firm of Gonzalez, Saggio & Harlan and has worked for several other firms and businesses during his career. He has handled a broad spectrum of cases, ranging from workers' compensation litigation to corporate law – experience that has served OIC-GM well when faced with difficult decisions. He has shared his knowledge with others as an instructor at Marquette University and for Professional Education Systems, and is a contributing author to several law publications.

Porter's professional and community affiliations are a testament to his sense of civic duty. He is a member of the Wisconsin Supreme Court Code of Professional Responsibility Revision Committee, Chairman of the State's Legal Services Advisory Committee, an arbitrator for the New York Stock Exchange, and a board member of many prestigious organizations including: Milwaukee Urban League, Wisconsin Black Lawyers Association, Milwaukee's NAACP, Goodwill Industries, Wisconsin Correctional Services, Family House and more.

A former Army Captain and MP (military police officer), Porter was born in New York, New York but settled in Milwaukee after graduating from Yale University. Still a City of Milwaukee resident, he has been married to Yvonne for 33 years and they have one son.



"Helping People Help Themselves"

**OPPORTUNITIES INDUSTRIALIZATION CENTER
OF GREATER MILWAUKEE, INC.**



**GEORGIA M. CAMERON,
CHIEF OPERATIONS OFFICER**

In August of 2004, Georgia M. Cameron assumed the position of Chief Operations Officer for OIC-GM. She has worked with the organization since 1997 and is imminently qualified to lead OIC into the future.

As COO, Cameron will work closely with the Chairman/CEO and Boards of Directors to maintain OIC-GM & Affiliates' continued growth and reputation as a force for good in Milwaukee. She presides over a staff of more than 350 employees and an organizational budget of \$60 million, and is responsible for all program operations of OIC-GM and its five affiliates. It is her job to remain aware of needs and trends, and to provide solutions

and strategic planning to meet the challenges of a dynamic community economic development corporation and changing community.

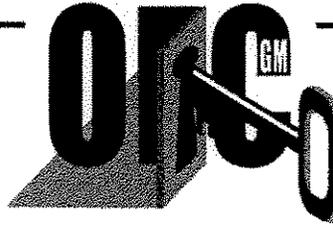
Cameron has a Master's Degree in Business Administration as well as a nursing degree, both from the University of Wisconsin-Milwaukee. She has demonstrated her skills in program development and analysis, fiscal management, organizational design and business management. More importantly, she has a proven record of service to the community and an unwavering commitment to the founding principles of OIC-GM.

Cameron has been a valuable member of many OIC-GM project teams and is a respected member of the Executive Staff. Formerly the Senior Vice President of Business Development and Management, this position afforded her a unique opportunity to work in many areas of business development and management including commercial food operations, retail operations, and real estate and property management. Furthermore, she is certified in Section 42 Affordable Housing compliance and holds a City of Milwaukee Landlord Training Certificate. As a commissioner for Milwaukee's Board of Zoning Appeals, she has extensive knowledge of city ordinances related to land use. Cameron also has established relationships with governmental, community-based, health and human services agencies and elected officials to ensure OIC-GM's ability to effectively provide diverse services to its customers.

Before joining OIC-GM, Cameron was the Public Health Services Director for the City of Milwaukee and managed seven full service centers and several clinic sites. She was responsible for 250+ employees working in more than 25 services areas. She was responsible for capital improvements of three buildings, the development of a wide-area network and integrated relational database and much more. A few of the initiatives launched under her tenure included the county-wide Immunization Database, Milwaukee Metropolitan Adolescent Pregnancy Prevention Coalition, Safe Nights, two health mobiles costing in excess of \$500,000.

Cameron is well respected and has served in a leadership capacity on various boards and organizations, both locally and statewide and has been appointed to various committees by elected officials. In addition to her work with OIC-GM, Cameron is a UWM Alumni Association Trustee and a member of the National Black MBA Association, The Business Council, Sigma Theta Tau International Honor Society of Nursing, African American Women's Project, National Black Child Development Institute. She is a board member of Planning Council for Health and Human Services and the Black Health Coalition of Wisconsin. She is active in her church, Greater Galilee Baptist Church, having service in the health and youth ministries. Past affiliations include, President of the Wisconsin Local Public Health Officials and Adjunct Professor in the UWM College of Nursing.

Cameron has been married to husband James for 37 years and has two daughters. A lifelong resident of Milwaukee, she continues to serve her hometown with honor.



"Helping People Help Themselves"

**OPPORTUNITIES INDUSTRIALIZATION CENTER
OF GREATER MILWAUKEE, INC.**



**CORDELIA I. EKWUEME,
CHIEF FINANCIAL OFFICER**

Cordelia I. Ekwueme has been the Chief Financial Officer for OIC-GM since 1997, charged with the organization's overall fiscal health and operating efficiencies. Under the watchful eyes of the Board of Directors and several independent auditors, Ekwueme has successfully managed both the budget and an array of economic challenges. A strategist, result-driven leader and meticulous accountant, she has helped OIC-GM become a model for community-based organizations and a stable service entity for all of Milwaukee.

Ekwueme came to OIC-GM from Washington D.C., where she served as administrator for the Office of Finance and Treasury. In this position, she was commended for generating millions in revenue, leading settlement negotiations and writing legislation for the amendment of the District's Unclaimed Property Act. This experience with both financial and governmental matters has proven invaluable to OIC-GM, as is her knowledge of both for-profit and nonprofit management.

A certified public accountant with an MBA from Howard University, a master's degree in technology from the University of Manchester and a Bachelor's degree in Chemistry from the University of Lagos, Ekwueme has a base of knowledge that far surpasses the average CFO. More than just a "money manager" for OIC-GM, she directs the operations of finance, information technology, telecommunications, and administrative services, all in accordance with Government Auditing Standards. She welcomes the review of OIC-GM's financial records, knowing that all reports justify the faith funding sources have placed in the organization to administer monies in the public interest.

As part of a commitment to following best practices and economic trends, Ekwueme is involved with several professional associations. She is a member of the American and Wisconsin Institutes of Certified Public Accountants, the Association of Financial Professionals, the American Management Association and the National Association of Black Accountants. As a leader, she also serves on the Wisconsin CPA Educational Foundation board, Wisconsin African American Women's board and the NCIM Building Development board.

A dedicated professional and an active member of her community, Ekwueme shares OIC-GM's interest in helping individuals and making Milwaukee a better community with diverse economic and cultural opportunities.




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State warns largest W-2 provider it may lose contract

October 25, 2004

MILWAUKEE - The state has again warned its largest Wisconsin Works welfare provider that it will lose all or part of its contract at the end of the year if it doesn't fix its problems.

Opportunities Industrialization Center of Greater Milwaukee has not met performance standards, its caseload and financial resources are not balanced, it has used improper administrative procedures and must improve its program management, according to a letter obtained by The Associated Press Saturday.

The state put OIC on notice earlier this year that its Wisconsin Works, or W-2, work wasn't up to par, following a series of blows to the agency.

Its former president, Carl Gee, was convicted this summer in federal court for a role in a kickback scheme that routed W-2 funds to former state Sen. Gary George. He is serving a federal prison term for conspiracy in the kickback deal. Several other top OIC managers also have left the agency since the scandal.

The firm has not cooperated with a state authorized auditor and it hired a new chief executive without first notifying state officials, according to the letter signed by Bill Clingan, administrator of the state Division of Employment Solutions, which oversees W-2.

The firm, which is operating under a two-year, \$84.4 million

contract, has also been denied another \$8.3 million because state officials determined its plan for how to use the money was inadequate.

"We are seriously looking at options for changing the OIC contract," JoAnna Richard, a top Workforce Development official, said in a statement obtained by Milwaukee Journal Sentinel for Saturday's editions. "We are looking at a full range of options, from termination to changing regions or to changing the program management" at OIC.

OIC issued a statement saying it would work with the state to address its concerns.

"We are working diligently to meet the performance expectations within the timelines established," OIC said.

Richard did not say who would handle the agency's W-2 caseload if it fails to turn things around. The agency handles the W-2 program in three of six Milwaukee County regions and had more than \$250 million in W-2 contracts between 1997 and 2003.

The state's main concern is improving the way OIC serves its clients, Clingan told the newspaper.

"OIC has failed several of our customer service performance measures and has not made significant improvements in those measures within the last month," Clingan said. "In addition, we are concerned about the number of individuals entering employment. OIC's numbers are not where they should be, and the idea is to connect individuals to work."

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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November 9, 2004

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed a review of the administration of the Wisconsin Works (W-2) program by Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM), Wisconsin's largest provider of W-2 services, which has been awarded state contracts totaling \$231.5 million since 1997. This review was undertaken as part of our ongoing, comprehensive audit of the W-2 program, as requested by the Joint Legislative Audit Committee.

We found that OIC-GM's relationships with other companies are complex and include a subsidiary, affiliates, and ownership interests in other organizations. There is also substantial overlap in the leadership of OIC-GM and these organizations. During the 2002-2003 W-2 contract period, OIC-GM paid these companies at least \$2.1 million. Although we found no evidence these payments were inappropriate, there is, at a minimum, the potential for OIC-GM and its associated organizations to financially benefit through noncompetitive subcontracts involving state and federal funds.

We reviewed the level and appropriateness of expenditures made by OIC-GM under W-2 and other programs and with other state and federal funds, including payments made to an attorney recently convicted of misappropriating state and federal funds. We questioned \$421,200 in state and federal funds OIC-GM paid for legal services, including \$308,000 for questionable work that was inadequately supported and \$113,200 paid to an officer of OIC-GM, which is not allowed under federal regulations. We also found that OIC-GM had large expenditures for telecommunications, which totaled at least \$330,700 for the 2002-2003 contract period.

Among \$1.2 million in other transactions made by OIC-GM, we identified \$6,900 in expenditures charged to the W-2 program that are unallowable, and we questioned another \$86,400 primarily because they were excessive, extraordinary, or unnecessary to agency operations.

Sincerely,

Janice Mueller
State Auditor

JM/PS/bm

**ADMINISTRATION OF THE WISCONSIN WORKS PROGRAM BY
OPPORTUNITIES INDUSTRIALIZATION CENTER
OF GREATER MILWAUKEE, INC.**

Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM) is a private, not-for-profit company that was established in 1967 as a community training and development corporation to provide a range of services to low-income and disadvantaged residents. In March 1997, the Department of Workforce Development (DWD) selected OIC-GM, as well as four other private companies, to deliver services in Milwaukee County under the newly created Wisconsin Works (W-2) program. For purposes of service provision, Milwaukee County was divided into six regions, and contracts were issued for each region. Since 1997, OIC-GM has entered into five separate contracts related to the administration of W-2 in Milwaukee County, with a total value of \$231.5 million. Since January 2004, it has been responsible for providing services to approximately 50 percent of the W-2 participants in Milwaukee County, which is approximately 40 percent of the total caseload in Wisconsin.

Over the past several months OIC-GM has been the subject of a number of criminal investigations related to a kickback scheme for which individuals were convicted of misappropriating state and federal funds. In acting on several requests for audits of the W-2 program, the Joint Legislative Audit Committee approved a request to audit OIC-GM. This report is limited to our financial review. A review of OIC-GM's performance in serving W-2 participants will be included in a comprehensive evaluation of the statewide administration of the W-2 program, which will be released next year.

However, we chose to prepare a separate report on OIC-GM for several reasons. First, questions have been raised specifically about OIC-GM, including whether the State has identified all state, federal, and local funds involved in the illegal kickback scheme. This concern applies only to OIC-GM. Second, given that several individuals have been convicted of felony conspiracy charges associated with the misappropriation of state and federal funds as part of the kickback scheme, concerns have been raised about the appropriateness of other expenditures OIC-GM has made with public funds. Finally, in September 2004, DWD required OIC-GM to complete a corrective action plan to improve its financial performance, based on DWD's concerns in areas such as the allocation of administrative costs and the specificity of retainer agreements with attorneys. The imposition of corrective action plans by DWD is not common and reflects significant concerns with an agency's operations or performance.

To address the specific concerns raised about OIC-GM, we reviewed:

- revenue, expenditure, and staffing information from 1998 through 2002, the most recent year audited financial information was available during the course of our review;
- OIC-GM's relationships with its subsidiary and related organizations;
- the procurement of legal services;
- expenditures for leased space and telecommunications; and
- the appropriateness of costs charged to the W-2 program.

In general, we focused our review on direct costs, or charges made by OIC-GM to the W-2 program. However, because OIC-GM's indirect costs are spread across the programs it operates with state, federal, and local funding, we also reviewed the extent to which some indirect costs were charged to W-2 and other state and federal programs.

In conducting our review, we interviewed OIC-GM and DWD officials and analyzed the financial and program records they maintained. To avoid unnecessary duplication of effort, we coordinated our work with DWD and contacted other state and local agencies to determine if they had conducted reviews of OIC-GM. We did not attempt to replicate the financial audits of OIC-GM that had been conducted in the past or are ongoing. Based on concerns raised as the result of criminal investigations, DWD informed OIC-GM in February 2004 that it would be required to use an accounting firm selected by DWD for its 2003 financial audit. The results of this audit were not available during our review.

Revenue and Expenditures

Since 1997, the W-2 program has provided the largest share of OIC-GM's total revenue. As shown in Table 1, OIC-GM's first contract was for \$2.4 million. This start-up contract provided funds that allowed the agency to hire staff and provide staff training, make facility improvements, and develop plans for moving participants out of the Aid to Families with Dependent Children program and into the W-2 program. Under its first implementation contract, which ran for 28 months from September 1997 through December 1999, OIC-GM received \$57.2 million to administer the program and provide services. OIC-GM's current W-2 contract totals \$84.4 million and runs from January 2004 through December 2005. Its value is more than double the 2002-2003 contract amount because OIC-GM assumed responsibility for two additional service regions in January 2004.

Table 1

W-2 Contracts Awarded to OIC-GM

Contract Period	Administration	Cash Benefits and Services	Total Contract
March 1997 through August 1998 (Start-up Contract) ¹	—	—	\$ 2,389,202
September 1997 through December 1999	\$5,649,767	\$51,559,516	57,209,283
January 2000 through December 2001	5,026,948	42,113,176	47,140,124
January 2002 through December 2003	3,321,639	36,993,890	40,315,529
January 2004 through December 2005 ²	9,527,922	74,872,806	84,400,728

¹ Because start-up contract funds were intended to be spent before participants were enrolled in the W-2 program, they did not include separate allocations for administration and cash benefits and services.

² Beginning in January 2004, OIC-GM assumed responsibility for serving participants in two additional regions of Milwaukee County.

Although W-2 provides most of its revenue, OIC-GM also receives funding from several state agencies and local units of government. As shown in Table 2, its total revenues increased from \$33.4 million in 1998 to \$37.5 million in 2002. Available information on revenues and expenditures is limited to this period because OIC-GM's 2003 financial audit was not complete at the time of our review.

Table 2

OIC-GM Revenue

Source	1998	2002	Percentage Change
Grant and Contract Revenue			
State Agencies:			
Department of Workforce Development	\$27,533,748	\$25,348,901	(7.9%)
Department of Administration	1,686,758	5,617,779	233.1
Department of Public Instruction	0	2,277,269	—
Private Industry Council of Milwaukee County	188,055	0	(100.0)
Milwaukee County	357,528	571,643	59.9
City of Milwaukee	739,229	899,333	21.7
Milwaukee Public Schools	0	750,706	—
Miscellaneous Sources	0	220,970	—
Mentoring Institute	0	173,287	—
Inner City Redevelopment Corporation, Inc. ¹	0	100,000	—
Subtotal	30,505,318	35,959,888	17.9
Other Revenue			
W-2 Unrestricted Profits	1,700,000	607,834	(64.2)
Management Fees Charged to Affiliates	0	487,312	—
Other	49,421	368,622	645.9
Internal Sales and Rental Revenue ²	1,054,801	60,812	(94.2)
Gain on Investment	41,392	0	(100.0)
Contributions	12,679	0	(100.0)
Subtotal	2,858,293	1,524,580	(46.7)
Total	\$33,363,611	\$37,484,468	12.4

Source: OIC-GM Audited Financial Statements

¹ Represents funds associated with a housing revitalization project on Dr. Martin Luther King, Jr. Drive.

² Represents internal charges to OIC-GM programs based on their use of OIC-GM facilities and materials.

In 2002, OIC-GM received \$24.9 million through its W-2 contract with DWD, but it also received funding to provide services through other state and federal programs, including weatherization assistance through the Department of Administration, food programs for children through the Department of Public Instruction, and community development and improvement programs through Milwaukee County and the City of Milwaukee. The weatherization assistance program, which is OIC-GM's second-largest program, provides low-income households with

basic weatherization services such as insulating attics, walls, and floors; installing energy-efficient lighting; and repairing or replacing furnaces.

As shown in Table 3, OIC-GM's total expenditures increased from \$31.4 million in 1998 to \$40.5 million in 2002. The largest dollar increase was for employee salaries and fringe benefits, which increased \$5.4 million, or 71.1 percent. The largest percentage increase was for participant training, food, and support services, which increased \$4.1 million, or 104.7 percent. Expenditures for materials and supplies increased 93.5 percent. Because its expenditures exceeded its revenues in 2002, OIC-GM obtained short-term loans from local banks to cover operating costs.

Table 3

OIC-GM Expenditures

Type of Expenditure	1998	2002	Percentage Change
Employee Salaries and Fringe Benefits	\$ 7,540,196	\$12,900,463	71.1%
Employee Travel and Staff Development	365,960	268,534	(26.6)
Rent, Utilities, Repairs, and Maintenance	1,880,117	2,387,414	27.0
Materials and Supplies ¹	1,392,496	2,693,911	93.5
Professional Services ²	1,367,100	1,647,993	20.6
Participant Training, Food, and Support Services	3,938,957	8,062,694	104.7
Participant Cash Benefit Payments	13,504,067	9,973,897	(26.1)
Other ³	1,417,947	2,558,478	80.4
Total	\$31,406,840	\$40,493,384	28.9

Source: OIC-GM Audited Financial Statements

¹ Includes items such as weatherization supplies and office supplies and equipment.

² Includes accounting and audit services, legal services, and consulting services.

³ Includes insurance, depreciation, loss on investments, and bad debt.

The increase in expenditures for staffing is largely attributable to an increase in the number of full-time and part-time employees, which grew from 178 in 1998 to 316 in 2002. OIC-GM officials indicated that most of the additional employees were not hired to administer the W-2 contract but instead served other programs and were supported with other funds, including weatherization funds received from the Department of Administration and funds for low-income families received from DWD. Increased expenditures for participant training and support services are related both to higher costs for subcontracted W-2 and weatherization services and to a new food service program, funded through the Department of Public Instruction, which was

first administered by OIC-GM in 1999. Finally, the \$1.3 million increase in materials and supplies is largely the result of an increase in weatherization materials that OIC-GM purchased using funds provided through the Department of Administration's weatherization program.

Expenditures for participant cash benefit payments declined by \$3.5 million primarily because the number of W-2 recipients receiving cash benefits declined from 1998 to 2002.

Because salary and fringe benefit costs increased significantly, we reviewed current salary data for staff paid \$60,000 or more annually. As shown in Table 4, 14 positions were in this category in September 2004. Of these, four were paid more than \$100,000. It should be noted that the September 2004 data do not include the salary of the former president and chief executive officer of OIC-GM, Mr. Carl Gee, because he resigned in August 2004 after being convicted on felony conspiracy charges. In 2003, Mr. Gee's salary was \$202,020, of which an estimated \$155,700 was paid with W-2 funds.

Table 4
Salaries Paid to OIC-GM Staff¹
September 2004

Position	Salary	Amount Charged to W-2
Vice President of Finance/Chief Financial Officer	\$151,278	\$79,103
Senior Vice President/Chief Operating Officer	151,278	87,893
W-2 Administrator	105,019	105,019
Vice President of Community Relations	101,389	58,907
Vice President of Human Resources	95,793	57,399
Information Technology Director	85,280	48,610
Vice President of Family and Neighborhood Services	81,712	40,856
Controller	77,250	34,775
Research and Planning Specialist	75,000	43,575
Director of Human Resources	67,600	39,276
Director of Administrative Services	67,600	37,944
Information Technology Manager	67,100	38,247
Accounting Manager	61,800	27,820
Executive Assistant to the Chief Operating Officer	60,000	34,860

¹ Does not include the salary of Mr. Gee, the former president and chief executive officer who resigned in August 2004. Mr. Gee's annual salary for 2003 was \$202,020, of which an estimated \$155,700 was paid by the W-2 program.

In an attempt to gain a better understanding of program staffing levels, we reviewed information collected from W-2 agencies by DWD. As part of the request for proposals process, DWD required prospective W-2 agencies to submit staffing plans that indicate the agencies' anticipated organizational structure and number of full-time equivalent (FTE) staff positions to be supported with W-2 funds. DWD was unable to locate the staffing plans submitted by Milwaukee County agencies during the 2002-2003 contract period, but it provided us with staffing plans for the 2004-2005 contract period.

We compared the number of FTE staff positions each of the three Milwaukee County agencies that currently administer the program reported as part of this process. Comparisons were difficult to make because each agency is organized differently, and information was not reported in a uniform manner. For example, most staff who were not directly charged to the W-2 program were not reported by the agencies. In addition, the extent to which an agency subcontracts for services can have a significant effect on the number of FTE staff positions included in its staffing plan. For example, OIC-GM subcontracts with an outside agency to provide information to W-2 participants on services available through W-2 and other social service programs, including the Food Stamp and Medical Assistance programs, and to conduct initial assessments of participants' needs.

Nevertheless, as shown in Table 5, OIC-GM's staffing plan and personnel budget anticipated that 197.0 FTE staff positions would be supported by the W-2 program, which is an average of 29.7 participants per FTE staff position. OIC-GM has more participants per FTE staff position than the other two W-2 agencies.

Table 5

**FTE Staff Positions Supported by W-2 Program Funds
2004-2005 Contract Period**

Agency	Anticipated Number of FTE Staff Positions ¹	Average Number of Participants per FTE Staff Position ²
OIC-GM	197.0	29.7
Maximus	199.8	23.7
UMOS	82.7	16.8
Total	479.5	25.0

¹ Based on staffing plans the agencies submitted to DWD and OIC-GM's personnel budget.

² Based on the average number of participants served per month from January through June 2004.

Given that OIC-GM currently serves three of the six regions in Milwaukee County, Maximus serves two, and United Migrant Opportunity Services, Inc. (UMOS) serves one, some economies of scale could be expected with agencies serving more than one region. That is, it may be possible to effectively serve more clients with higher participant-to-staff ratios once an organization exceeds a certain participant threshold. In addition, because useful data on the type of staff W-2 agencies employed were not available, we could not determine the number of staff positions that were devoted to service provision rather than to administration. Consequently, a higher ratio of participants to staff does not necessarily indicate a lower level of service.

Collecting meaningful information on program staffing levels is important to effective program management and is necessary to ensure accountability. We do not believe that the information currently collected by DWD is adequate because it:

- is limited to anticipated, rather than actual, staffing levels;
- does not provide uniform information on the type of staff hired, including administrators and direct service providers; and
- typically does not include administrative staff, such as accountants and procurement specialists, who support W-2 operations but whose salaries are charged as indirect costs.

☑ Recommendation

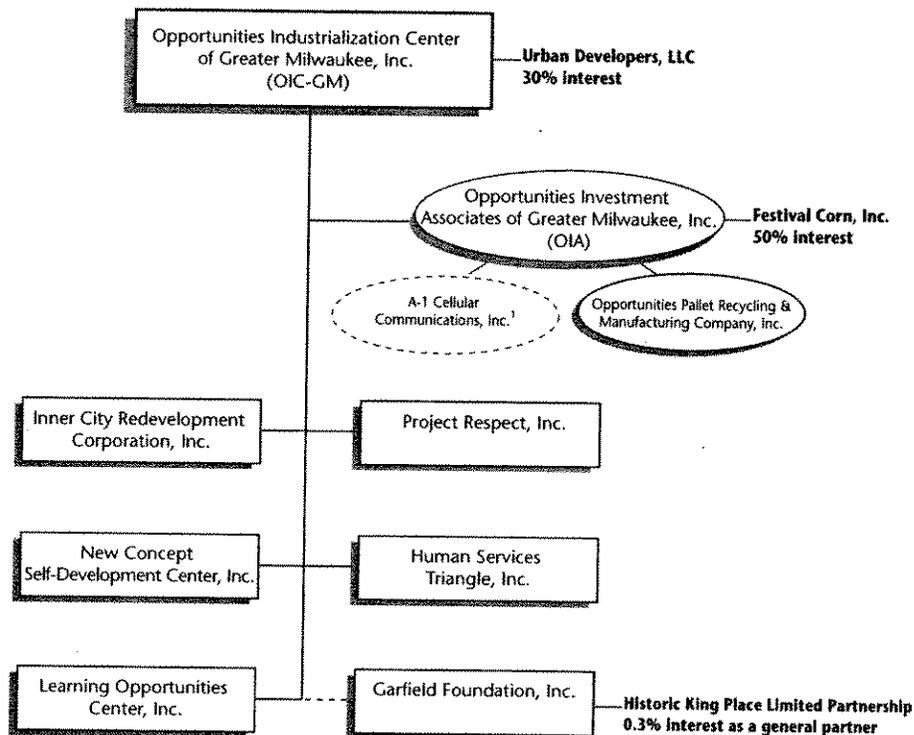
We recommend the Department of Workforce Development require all W-2 agencies to provide information annually on the number of full-time equivalent administrative and program staff positions supported with W-2 funds during the previous contract year.

Associated Organizations

The relationship of OIC-GM to other companies is complex and includes one subsidiary, as well as several affiliates and ownership interests in other organizations. Opportunities Investment Associates of Greater Milwaukee, Inc. (OIA) is a wholly-owned subsidiary of OIC-GM. It was established in 1977 as a for-profit holding company for many of OIC-GM's economic development enterprises. As shown in Figure 1, OIC-GM also has affiliations with five other organizations that, unlike subsidiaries, do not involve ownership interests but have common officers and directors. In addition, OIC-GM has an association with one organization, the Garfield Foundation, Inc., which OIC-GM officials describe as a "related entity," rather than an affiliate.

Figure 1

**OIC-GM Organizational Chart
2004**



¹A-1 Cellular Communications, Inc., discontinued operations on March 31, 2003.

The dates of creation, status, and general purpose of OIC-GM's subsidiary and related organizations are shown in Table 6. The Garfield Foundation, Inc., was established in 1967 to hold title to property and collect rent for the property it leases to OIC-GM and its affiliates. Although originally incorporated as a tax-exempt organization, the Garfield Foundation was advised by the Internal Revenue Service in March 1987 that its tax-exempt status was being revoked due to OIC-GM's "lack of control" of the organization. Although it no longer has tax-exempt status, the Garfield Foundation continues to operate as a not-for-profit organization, and OIC-GM officials indicate that no individual, company, or entity has ownership interests in the Garfield Foundation.

Table 6

Subsidiaries and Affiliated Organizations of OIC-GM

Name	Year Established	Type of Association	Status	Purpose
Garfield Foundation, Inc.	1967	Related Entity	Nonprofit	Established exclusively to hold title to property and collect rent. Leases property to OIC-GM and its affiliates.
New Concept Self-Development Center, Inc.	1975	Affiliate	Nonprofit	Established to provide a wide range of services, including prevention and intervention services to youth and families, parenting skills, mentoring, and abstinence education.
Opportunities Investment Associates of Greater Milwaukee, Inc.	1977	Subsidiary	For-profit	Established as a holding company for OIC-GM's economic development enterprises.
Project Respect, Inc.	1977	Affiliate	Nonprofit	Established to develop programs to reduce crime in the community and refer victims to appropriate resources.
Inner City Redevelopment Corporation, Inc.	1978	Affiliate	Nonprofit	Established to further the economic revitalization of Milwaukee's central city.
Human Services Triangle, Inc.	1980	Affiliate	Nonprofit	Established to provide social and mental health services, including residential facilities for the mentally ill and the developmentally disabled.
Learning Opportunities Center, Inc.	1983	Affiliate	Nonprofit	Established to provide vocational assessment, counseling, training, and placement services to the unemployed and underemployed.

In addition to those organizations associated directly with OIC-GM, the company's for-profit subsidiary, OIA, has had wholly-owned subsidiaries of its own. It currently owns Opportunities Pallet Recycling & Manufacturing Company, Inc. However, in September 2004, OIC-GM's board voted to recommend closure of the manufacturing company. Until early 2003, OIC-GM had also owned A-1 Cellular Communications, Inc., a Milwaukee-based re-seller of telecommunications airtime and cellular and pager equipment. OIA acquired A-1 Cellular in May 1999; A-1 Cellular's board of directors voted to discontinue operations as of March 31, 2003.

Finally, OIC-GM and its associated organizations currently have ownership interests in three other organizations:

- OIC-GM is one of four owners of Urban Developers, LLC, a company established primarily to acquire, develop, lease, and manage correctional facilities in the City of Milwaukee. OIC-GM has a 30 percent ownership interest; a local construction contractor owns the largest share.
- With funding from OIC-GM, OIA acquired a 50 percent interest in Festival Corn, Inc., which sells fresh grilled corn at local festivals.
- The Garfield Foundation has a 0.3 percent ownership interest as a general partner in Historic King Place Limited Partnership, which was established in June 1990 to construct, own, and operate a retail and low-income residential complex in the City of Milwaukee.

There has been substantial overlap in the leadership of the organizations with which OIC-GM has close relationships. The most extensive overlap is associated with two individuals, Mr. Gee, the former president and chief executive officer of OIC-GM, and Mr. Richard Porter, the former chair of OIC-GM's board.

Until he resigned his positions in August 2004, Mr. Gee was also:

- the director and board president of OIA and Opportunities Pallet Recycling & Manufacturing Company;
- a member of the board of the Garfield Foundation; and
- president and a member of the boards of Inner City Redevelopment Corporation, Project Respect, and Learning Opportunities Center.

OIC-GM officials indicated that Mr. Gee resigned his positions in these organizations in August 2004, after he was convicted on federal conspiracy charges associated with the kickback scheme involving payments OIC-GM made for legal services. Mr. Gee is currently appealing his conviction.

In addition, Mr. Porter—who from February 1999 through October 2004 was the chair of OIC-GM's board of directors, and who served as acting chief executive officer of OIC-GM from August 25 to October 25, 2004—is the chair of the Human Services Triangle board and a member of the boards that oversee the Garfield Foundation, OIA, and Opportunities Pallet Recycling & Manufacturing Company. Mr. Porter assumed chief executive powers for the operation of OIC-GM on an interim basis when Mr. Gee resigned in August 2004. For the two-month period he served in this capacity, he was paid an estimated salary of \$6,700 in this part-time role. In October 2004, OIC-GM hired Mr. Tyrone Dumas, a former Milwaukee Public Schools employee, to take over the job of interim president at an annual salary of \$165,000.

After Mr. Gee's resignation, the OIC-GM board of directors met and recommended to the Garfield Foundation's board that Mr. Gee be hired as a consultant to assist with transition issues

and paid a salary of \$75,000 annually. However, after consulting with DWD officials, the board's recommendation to hire Mr. Gee as a consultant was not acted upon. We questioned OIC-GM officials directly about this issue in September 2004, but they were not forthcoming about the proposal until the board's actions were publicly disclosed in an October 2004 newspaper article.

Payments to Related Organizations

A substantial amount of revenue flows among OIC-GM and the other organizations with which it has close relationships. Questions have been raised about the level of funding provided by OIC-GM to these related organizations. Therefore, we reviewed the amount of funds that OIC-GM paid these organizations during the 2002-2003 contract period.

Using its general ledger and information provided by OIC-GM, we identified payments totaling at least \$2.1 million that OIC-GM made to its subsidiary and associated organizations. However, with the exception of the Garfield Foundation, we were not able to identify payments that OIC-GM charged to the W-2 program as indirect costs. We estimate that indirect costs for the 2002-2003 contract period totaled at least \$4.0 million and that \$123,800 of this amount represents indirect cost payments to the Garfield Foundation.

Available data indicate that OIC-GM paid Learning Opportunities Center, Inc., \$1.2 million for W-2 participant education, training, and child care services over the 2002-2003 contract period. We estimate that approximately \$864,600 of this amount represents a pass-through of funds for child care. As shown in Table 7, the Garfield Foundation was paid the second-largest amount, \$519,000, which represents payments for leased space occupied by OIC-GM staff. As noted, the Garfield Foundation owns much of the property leased by OIC-GM and its related organizations.

Table 7

*at least
at 4 miles
indirect
during
time period*

Payments OIC-GM Made to Subsidiaries and Associated Organizations with W-2 funds¹

Subsidiary/Affiliate	Amount Paid During the 2002-2003 Contract Period	Percentage of Total	Services Provided
Learning Opportunities Center, Inc.	\$1,201,419 ²	56.5%	Learning lab, community service job site, and child care
Garfield Foundation, Inc.	519,137 ³	24.4	Leased space
New Concept Self-Development Center, Inc.	226,517	10.6	Participant training, mental health services, and alcohol and other drug abuse services
Human Services Triangle, Inc.	95,937	4.5	Alcohol and other drug abuse services
Project Respect, Inc.	53,451	2.5	Training program for W-2 participants
A-1 Cellular Communications, Inc.	32,379	1.5	Telephone charges
Total	\$2,128,840	100.0%	

¹ Except for the Garfield Foundation, includes only direct charges. Indirect charges for other organizations could not be determined from the information OIC-GM provided us.

² Approximately \$864,600 of this amount represents a pass-through of funds for child care.

³ Includes \$395,300 in direct charges and an estimated \$123,800 that OIC-GM paid through indirect charges using W-2 funds. The charges represent the W-2 program's share of rent for space in administrative buildings and in buildings that were used for multiple programs.

The fact that OIC-GM pays many of its affiliates to provide services using state and federal funds is not improper, provided that the expenditures made with public funds are reasonable, needed for agency operations or performance of the W-2 contract, and supported by adequate documentation. However, given the overlapping nature of leadership for these organizations, there is, at a minimum, the potential for OIC-GM and its associated organizations to financially benefit through noncompetitive subcontracts involving state and federal funds.

W-2 agencies are not required to solicit bids for subcontracts. However, under federal regulations, expenditures made by W-2 agencies with federal funds must be reasonable, and in determining whether a cost is reasonable, consideration must be given to whether the expenditure was incurred under "arm[']s length bargaining." This provision is intended to ensure that expenditures for goods and services are not unnecessarily inflated by interests of contractors that may conflict with efficient program management. Therefore, based on concerns raised about the use of state and federal funds and OIC-GM's relationships with other organizations, we reviewed costs in three areas—legal services, leased space, and telecommunications.

Legal Services Expenditures

Concerns about the appropriateness of OIC-GM's legal services expenditures were first raised publicly in November 2003, when the United States Attorney for the Eastern District of Wisconsin began filing charges against three individuals—Mr. Mark Sostarich, an attorney paid by OIC-GM; Mr. Gary George, a former legislator; and Mr. Gee—for knowingly conspiring to defraud the State of Wisconsin through a scheme to obtain illegal kickbacks from legal services fees paid by OIC-GM. The indictments alleged kickbacks totaling approximately \$270,000 were paid to Mr. George by Mr. Sostarich. In 2004, the three individuals were convicted in federal court.

To assess the overall level and type of services provided, we reviewed OIC-GM's legal services expenditures since 1997, when W-2 was implemented statewide. As shown in Table 8, payments for legal services generally increased over time. Expenditures for outside legal counsel reached a high of \$147,983 in 2001 and subsequently declined to \$50,330. Much of the decline can be attributed to the elimination in 2003 of payments to Mr. Sostarich, which accounted for 51.8 percent of all OIC-GM's outside legal service expenditures since 1997. In addition, OIC-GM has paid \$268,424 since 1997 to Mr. Richard Porter, the attorney who also chaired its board of directors and was its acting chief executive officer.

Table 8

OIC-GM Payments for Legal Services, by Provider¹

Year	Outside Legal Counsel				In-House Legal Counsel ³	Total
	Attorney Sostarich	Attorney Porter ²	Foley & Lardner	Other		
1997	\$ 24,505	\$ 16,453	\$ 0	\$6,915	\$ 0	\$ 47,873
1998	76,854	19,521	0	0	0	96,375
1999	97,894	52,779	0	2,518	0	153,191
2000	83,719	32,195	5,000	0	49,154	170,068
2001	70,008	47,164	30,811	0	59,886	207,869
2002	42,000 ⁴	60,000	44,316	0	121,293	267,609
2003	0	40,312	10,018	0	115,214	165,544
Total	\$394,980	\$268,424	\$90,145	\$9,433	\$345,547	\$1,108,529

¹ Excludes payments to attorneys associated with W-2 participant services, such as assisting participants in applying for Supplemental Security Income benefits.

² Mr. Porter, a partner in a multi-state law firm with offices in Milwaukee, served as the chairperson of OIC-GM's board of directors but also provided legal services that were separate from these duties. The amounts include \$46,764 for which OIC-GM was subsequently reimbursed by its affiliated organizations.

³ Includes both the salary and fringe benefits associated with in-house legal counsel, who was a part-time employee in 2000 and 2001 and a full-time employee in 2002 and 2003.

⁴ Represents payments made through September 2002. No payments were made after this time.

The contracts OIC-GM entered into with Mr. Sostarich indicate he was to represent it and its affiliates and provide legal services "in ongoing business, corporate, and other legal matters." OIC-GM officials indicated this work included providing general legal advice, assisting with real estate transactions, and work associated with the Oneida Nation that involved "regulations governing the sale and licensing of gaming equipment." Mr. Porter's contracts specified services identical to those of Mr. Sostarich, which were to represent OIC-GM and its affiliates and provide legal services "in ongoing business, corporate, and other legal matters." Foley & Lardner was contracted to work on public affairs and programmatic and financing issues identified by OIC-GM, including assisting the company in legally protecting its interests and "to seek support to help OIC reach its program and operation objectives." From 2000 through 2003, OIC-GM's in-house legal counsel worked on personnel matters, assumed responsibility for management of contracts entered into by OIC-GM, and provided legal advice to OIC-GM officials and employees. OIC-GM ended its use of in-house legal counsel in 2004.

Most of the payments to Mr. Sostarich were made as retainer fees under the terms of his contracts with OIC-GM. As a result, he was paid a set amount each month regardless of the amount of work performed. OIC-GM officials indicated that they chose a retainer rather than to pay for

discrete work products because they had a significant amount of legal work and were able to obtain lower rates using the retainer approach. The rates paid to Mr. Sostarich and other attorneys are shown in Table 9.

Table 9

**Selected Provisions of OIC-GM's Contracts for Outside Legal Services
1997 through 2003**

Attorney/Firm	Monthly Retainer Amount	Maximum Number of Hours of Work per Month Covered under Retainer	Hourly Rate for Hours Exceeding Retainer Maximum
Mr. Sostarich	\$5,834 from October 1997 through December 2001; \$4,667 from January through September 2002	20 hours ¹	\$150
Mr. Porter	\$5,000 from January 2002 through June 2003	Not specified ²	\$250
Foley & Lardner	\$2,500 from October 2000 through March 2003 ³	Not specified	Not specified

¹ Represents the maximum number of hours specified in the 1997 through 2001 contracts. No maximum was specified in the 2002 contract.

² Mr. Porter's current contract, for 2004, includes a retainer maximum of 20 hours per month.

³ Represents retainer payments for public affairs services. Other services were not part of the retainer agreement and were billed separately.

Of the \$394,980 paid to Mr. Sostarich, \$339,534 was paid as retainer fees and \$55,446 was paid under bills that were separate from the retainer agreements. The invoices submitted by Mr. Sostarich for retainer fees do not provide any detail on the specific work he performed; invoices we reviewed that were not part of his retainer fee included a description of services he provided. One invoice, which totaled \$19,545 and was paid in May 2000, was for services rendered in connection with negotiations for the lease, and subsequent purchase, of a property on North Teutonia Avenue. Another invoice from October 1999 totaled \$22,052 and was for legal services associated with the purchase of a building that OIC-GM used for a food service program and services performed for an affiliated organization.

From 1997 through 2001, Mr. Porter billed and was paid \$168,112 for specific legal services, none of which were provided under a retainer agreement. From January 2002 through June 2003, he was paid \$90,000 under a retainer agreement, which represents monthly payments of \$5,000 over the course of the 18-month contract. Citing funding limitations, OIC-GM suspended the 2003 retainer agreement OIC-GM had with Mr. Porter effective July 1, 2003. However, he also provided general legal services in August and September 2003 that were separate from the

suspended retainer agreement. These services were billed at the rate of \$375 per hour, and billings for them totaled \$10,312. During the time periods he was paid only for billed services, Mr. Porter was paid an average of \$2,700 per month. Under his 2004 contract with OIC-GM, Mr. Porter is paid a monthly retainer fee of \$5,000. Work beyond 20 hours per month is to be billed at the rate of \$250 per hour. This retainer fee does not include payments he received for two months in 2004 in his part-time position of acting chief executive officer.

Mr. Porter submitted invoices for legal services that listed the specific work he performed when not covered by retainer agreements, but he did not submit invoices for legal work covered under the retainer agreements, which did not require invoices. However, he did maintain records of his own that indicate the legal services he provided. Further, financial statements prepared for OIC-GM by its independent auditor from 1997 to 2002 disclosed that payments were made to a board member for professional services.

Finally, \$75,000 of the \$90,145 paid to Foley & Lardner was for public affairs services, which were provided under a retainer agreement that compensated the law firm at the rate of \$2,500 per month. An additional \$12,873, associated with a restaurant project, was paid through billings separate from the retainer agreement at rates ranging from \$200 to \$400 per hour, depending on the staff member performing the work. Foley & Lardner was also paid \$2,272 for other expenses, including telephone charges, travel expenses, and \$1,110 in immigration and naturalization fees.

In order to address concerns associated with the use of retainer agreements brought to light during the recent felony trials, DWD notified OIC-GM in October 2004 that it must provide documentation showing that all of its legal retainer agreements have been amended to explicitly state the number of hours that are anticipated to be worked and the type of legal services to be provided each month.

It should be noted that most of OIC-GM's legal services costs were not charged directly to a specific funding source. Instead, they were allocated to various funding sources based on the relative proportion of each program's direct expenditures. Since 1997, \$598,423, or 78.4 percent of all outside legal costs, were charged as indirect costs in this manner. As shown in Table 10, we estimate that state and federal W-2 program funds paid for \$667,283, or 60.2 percent, of OIC-GM's total legal costs.

Table 10

OIC-GM Expenditures for Legal Services, by Funding Source¹
1997 through 2003

Funding Source	Outside Legal Counsel				In-House Legal Counsel	Total
	Attorney Sostarich	Attorney Porter	Foley & Lardner	Other		
State of Wisconsin						
W-2 Program	\$233,985	\$125,057	\$59,100	\$8,563	\$240,578	\$ 667,283
Weatherization Program	31,558	35,806	7,971	0	32,447	107,782
Food Programs for Children	20,132	6,925	3,313	0	13,485	43,855
Other Employment Programs	7,333	3,872	1,852	0	7,540	20,597
Subtotal	293,008	171,660	72,236	8,563	294,050	839,517
W-2 Unrestricted Profits	36,850	23,552	5,259	0	0	65,661
City of Milwaukee	9,941	5,249	2,511	0	10,221	27,922
OIC-GM's Affiliates	15,733	47,133	176	0	717	63,759
Milwaukee County	5,035	2,659	1,272	0	5,177	14,143
Milwaukee Public Schools	2,424	1,280	612	0	2,493	6,809
Private Industry Council	1,520	803	384	0	1,563	4,270
Other	30,469	16,088	7,695	870	31,326	86,448
Total	\$394,980	\$268,424	\$90,145	\$9,433	\$345,547	\$1,108,529

¹ Allocations were estimated, based on the proportion of each funding source's share of all direct expenses.

In assessing the appropriateness of OIC-GM's overall expenditures, we attempted to review the legal expenditures made by Maximus and UMOS, which also administer the W-2 program in Milwaukee County. Neither could provide specific information. Maximus officials indicated that all of their legal services are provided through their company's corporate counsel and are charged as indirect costs. Maximus officials were unable to estimate the amount of indirect costs charged to the W-2 program that represent legal services. UMOS officials indicated that the only legal costs charged to the W-2 program are for a portion of one staff member's salary and fringe benefits. This individual works on legal matters as well as other issues. However, UMOS was not able to estimate the amount of staffing costs that was related to legal services.

Based on our review of OIC-GM's expenditures for legal services, we question some of the payments made to Mr. Sostarich and Mr. Porter under federal regulations. First, in August 2004, DWD notified OIC-GM that it was disallowing \$215,997 in costs representing payments to Mr. Sostarich that OIC-GM had charged to the W-2 program. DWD disallowed these costs because it determined through its own review that OIC-GM had provided inadequate documentation for these services. We agree with DWD's conclusion. However, we also found

that \$215,997 does not include all state and federal funds that DWD paid to OIC-GM for questionable work, and it does not include other state and federal funds that other agencies and local governments provided to OIC-GM. We estimate that from 1997 through 2003, payments of \$307,984 were made to Mr. Sostarich for questionable work that was inadequately supported, including:

- \$241,318 provided through DWD, which includes \$233,985 in W-2 funds;
- \$31,558 provided through the Department of Administration's weatherization assistance program;
- \$20,132 provided through Department of Public Instruction food programs;
- \$9,941 provided through the City of Milwaukee; and
- \$5,035 provided through Milwaukee County.

☑ Recommendation

We recommend the departments of Workforce Development, Administration, and Public Instruction require Opportunities Industrialization Center of Greater Milwaukee, Inc., to reimburse the State for \$293,008 in state and federal funds used in supporting payments to Mr. Sostarich.

We will work with other agencies to ensure that they have adequate information on which to take any corrective action they deem appropriate to recover funds they provided that supported inappropriate payments to Mr. Sostarich.

We also believe that payments made to Mr. Porter for legal services while he chaired OIC-GM's board are unallowable under federal regulations. Although federal regulations recognize professional service costs, such as legal services, as legitimate expenses, such costs are only allowable for services provided by individuals who are not officers or employees of the organization. The purpose of this provision is to enforce arm's length transactions.

OIC-GM's bylaws identify the board chair as an officer of the corporation. Therefore, payments made to Mr. Porter for legal services provided during the period he chaired the board are unallowable under federal regulations. Since 1999, when Mr. Porter became the chair, we estimate that state and federal funds used to support payments for the legal services he provided total at least \$113,200, including:

- \$95,000 provided through DWD, which includes \$94,300 in W-2 funds;
- \$11,200 provided through the Department of Administration's weatherization assistance program; and
- \$7,000 provided through Department of Public Instruction food programs.

☑ Recommendation

We recommend the departments of Workforce Development, Administration, and Public Instruction require Opportunities Industrialization Center of Greater Milwaukee, Inc., to reimburse the State for \$113,200 in state and federal funds used to support payments to Richard Porter since 1999 and that they no longer fund legal services provided by Richard Porter while he is an officer of the corporation.

Expenditures for Leased Space

Unlike other W-2 agencies, OIC-GM pays a related organization for much of the space it leases. Because of this unique arrangement, we reviewed the total amount of space leased and the amount paid in rent. Information for prior contract periods was not readily available; therefore, we based our analysis on the current (2004-2005) contract period. As of September 2004, OIC-GM was leasing 56,666 square feet of office space from the Garfield Foundation at two locations to support the provision of W-2 services, and 84,882 square feet from non-affiliated parties at four locations. In addition, W-2 funds also support 28,472 square feet of leased space at three properties for OIC-GM's administrative offices. All nine properties are listed in Table 11, along with their use, ownership, and monthly rent.

Table 11

Property OIC-GM Leased with W-2 Funds
September 2004

Location	Use	Square Footage Leased	Property Owner	Monthly Rent	Percentage of Rent Paid with W-2 Funds
4030 North 29 th Street	W-2 Services	59,122	Goodwill of Southeastern WI	\$22,472	100.0%
1915 North Martin Luther King, Jr. Drive	W-2 Services	14,920	YWCA of Greater Milwaukee	14,920	100.0
2935-47 North Martin Luther King, Jr. Drive	W-2 Services	54,611	Garfield Foundation	13,653	100.0
3351-59 North Martin Luther King, Jr. Drive	Administrative Offices	13,421	Garfield Foundation	6,000	Unknown ¹
6091 North Teutonia	W-2 Services	5,340	DWD	5,770	100.0
6069 North Teutonia	W-2 Services	5,500	Silver Mill Management Co.	5,715	100.0
2835 North 32 nd Street	Administrative Offices	12,964	Garfield Foundation	4,321	Unknown ¹
4641 North 27 th Street	W-2 Services	2,055	Garfield Foundation	2,942	100.0
4018 North 19 th Place	Administrative Offices	2,087	Former president of OIC-GM, Mr. Gee	950	Unknown ¹

¹ OIC-GM did not provide us with this information, but it indicated that the monthly rent is allocated across programs based on the level of each program's direct expenses.

*adm office
pt of
service*

Two of the buildings that OIC-GM uses for administrative space are owned by the Garfield Foundation, while the third building, which OIC-GM leases for its chief executive officer and support staff, is owned by Mr. Gee, the company's former president. The residential building, a two-story duplex, has 2,087 square feet of space and provides offices for seven OIC-GM staff. The 2004 assessment for this property is \$82,500. OIC-GM has rented the building since May 1996. The monthly rental cost was \$850 from May 1996 through December 1999, and it has been \$950 since January 2000. OIC-GM charges these rental costs as indirect administrative costs, which are allocated to W-2 and other state and federal programs based on each program's portion of total direct costs. We estimated that during the 2002-2003 contract period, a total of \$11,400 was paid with W-2 funds for the executive office space owned by the former president.

We compared OIC-GM's 2004 expenditures for leased space with those of the other two agencies providing W-2 services in Milwaukee County. As shown in Table 12, OIC-GM leased by far the greatest amount of square footage, but it also has administrative responsibility for three of the

six Milwaukee County regions. The monthly rent per square foot for OIC-GM's leased space was also lower than the rent for the other two agencies.

Table 12

Costs of Leased Property Charged
September 2004

Agency	Number of Properties	Square Footage Leased	Monthly Rent	Monthly Rent per Square Foot	Square Feet per Participant ¹
OIC-GM	9	170,020	\$ 76,743	\$0.45	29.1
Maximus	3	80,367	53,765	0.67	17.0
UMOS	1	50,200	34,455	0.69	36.1
Total	13	300,587	\$164,963	0.55	25.1

¹ Based on the average monthly number of participants served from January through June 2004.

Expenditures for Telecommunications

Based on the sizable expenditures OIC-GM made for telecommunications and its close relationship with a telecommunications company, we also reviewed expenditures for these services during the 2002-2003 contract period. Telecommunications costs include expenditures for local and long distance phone services, including cellular phone services.

We were unable to compare telecommunications costs per FTE staff position among Milwaukee's W-2 agencies because comparable W-2 agency staffing data were not available. Therefore, we assessed these costs by comparing the amount W-2 agencies spent on telecommunications in each of the six separate Milwaukee regions—which are generally similar in size and serve similar types of participants—during the 2002-2003 contract period. We could not make comparisons with the regions administered by YW Works because we were unable to determine the amount of YW Works' indirect costs that represented telecommunications services.

As shown in Table 13, OIC-GM had substantially higher telecommunications expenditures than the other two W-2 agencies. In fact, OIC-GM spent 66.1 percent more than Maximus, the agency with the second-highest level of expenditures. OIC-GM also had more expenditures for cellular phone services than Maximus. We estimate that OIC-GM spent \$47,200 on cellular phone services, compared to \$12,600 for Maximus. The level of detail provided in the general ledger information we reviewed did not allow us to determine the amount UMOS spent on cellular phone services.

Table 13

**Telecommunications Expenditures Charged to the W-2 Program
2002-2003 Contract Period**

Agency ¹	Telecommunications Expenditures
OIC-GM	\$330,677
Maximus	199,027
UMOS ²	182,748

80% in Milwaukee
1- OIC
2- UMOS
averaged
1-4 weeks

averaged

¹ We were not able to determine the amount of YW Works' indirect costs that represent telecommunications expenditures. YW Works administered two regions during this period.

² Represents the average telecommunications expenditures made for the two regions UMOS administered. OIC-GM and Maximus each administered one region during this time period.

OIC-GM officials indicate that their telecommunications expenditures were high during this period because they were implementing a new telecommunications system. Costs associated with a leasing agreement for the new system totaled \$84,700. Although we did not identify inappropriate telecommunications expenditures made by OIC-GM, the substantial disparity in telecommunications expenditures among W-2 agencies in Milwaukee suggests that more attention should be paid to limiting potentially unnecessary or excessive telecommunications costs in the future.

Recommendation

We recommend the Department of Workforce Development, as part of its ongoing fiscal monitoring efforts, closely review the telecommunications expenditures that agencies charge the W-2 program and the procedures W-2 agencies use for allocating telecommunications costs across programs.

Questioned Costs Charged to the W-2 Program

In addition to reviewing costs associated with legal services, leased space, and telecommunications, we reviewed the appropriateness and reasonableness of direct, non-staff costs that OIC-GM charged to the W-2 program during the 2002-2003 contract period.

We used the standards identified in DWD's W-2 financial management manual and other policy documents to test the appropriateness of OIC-GM's transactions. The manual describes state and federal program and financial compliance requirements; required internal controls, accounting records, and source documentation; and allowable cost criteria. Other policy documents issued

by DWD provide guidance on specific types of costs, such as those related to employee incentive payments.

Not-for-profit organizations such as OIC-GM are subject to the specific rules found in the federal Office of Management and Budget's Circular A-122, *Cost Principles for Non-Profit Organizations*, for determining the allowability of costs charged to W-2 contracts. In addition, allowable costs are limited to what is reasonable for proper and efficient program administration. A cost is considered reasonable if it:

- does not exceed the costs that would be incurred by a prudent person;
- is ordinary and necessary to the operation of the agency or the performance of the contract;
- is incurred in accordance with the agency's established procurement policy; and
- is supported by the agency's accounting records and adequate documentation.

Only costs that are directly attributable to specific work under a contract or to the administration of the contract are allowable. We worked with OIC-GM to identify relevant supporting documentation for the transactions we reviewed, and documentation was provided at a number of points during our review. All unallowable and questioned costs we identified are detailed in the Appendix.

We reviewed 303 transactions totaling \$1.2 million, or 16.3 percent of all direct costs that were not staff-related or related to the cash benefits paid to participants. We have questioned 24 of those transactions, and 7.6 percent of the direct costs we reviewed, as unallowable or potentially unallowable. Transactions were not selected randomly; rather, selection was based on transaction size and type of vendor. In addition, because we had concerns with the transactions associated with two radio station vendors, we reviewed contracts and all other available information on the services they provided.

The unallowable costs we identified total \$6,930 and include:

- \$5,532 in payments to a consultant for services that were described in the supporting documentation as being related to the Workforce Investment Act, a program that is separate from W-2;
- \$1,118 in bank fees for checks written with insufficient funds;
- late charges totaling \$145 that were paid to a vendor that rents copier machines to OIC-GM; and
- \$135 paid to the City of Milwaukee for towing charges and the release from an impound lot of a van that was used to transport W-2 participants.

As a private, not-for-profit corporation, OIC-GM may spend its own funds, including any "profits" it earns under its W-2 contracts, as it sees fit. However, federal regulations prohibit the

use of W-2 funds for fines, penalties, and expenditures that cannot be shown to directly benefit the W-2 program.

☑ Recommendation

We recommend the Department of Workforce Development require Opportunities Industrialization Center of Greater Milwaukee, Inc., to repay \$6,930 in unallowable costs.

We also question as potentially unallowable an additional \$86,375 in costs charged to the W-2 program that, in whole or in part, do not meet the standard of reasonableness prescribed in federal regulations and in DWD's W-2 financial management manual. These costs appear to be excessive, extraordinary, or unnecessary to agency operations or the performance of the W-2 contract, or they were not supported by adequate documentation. They include:

- \$75,100 for payments related to sponsorship of programming on a local radio station;
- \$9,015 for costs associated with editing OIC-GM's response to DWD's request for proposals for the 2004-2005 W-2 contract, including \$6,750 paid to a consulting firm and \$2,265 paid to an individual consultant;
- \$1,900 in excessive payments for van transportation provided to W-2 participants by a subcontractor; and
- \$360 in retail supply purchases for which no invoice or receipts could be found.

☑ Recommendation

We recommend the Department of Workforce Development require Opportunities Industrialization Center of Greater Milwaukee, Inc., to either repay the \$86,375 in questioned costs or provide additional documentation that adequately justifies the expenditure of program funds.

We note that OIC-GM spent an additional \$199,850 on radio programming from 1997 through 2001. Because these expenditures warrant further review for appropriateness by DWD, we analyzed them more fully in the context of our audit findings from prior years.

Advertising and Information Expenditures

In a July 2000 audit report on the administration of the W-2 program, we raised concerns about the large advertising and information expenditures made by W-2 agencies under the first W-2 implementation contract, which ran from September 1997 through December 1999. Examples of advertising and information expenditures include:

- advertisements in the yellow pages of telephone books;
- contract bid notices and employee recruiting advertisements in newspapers;
- upcoming job fair advertisements on local radio stations; and

- payments to radio personalities for live appearances at job fairs.

Advertising that has the primary focus of promoting the organization or its interests, rather than providing a program service, is not allowed under federal regulations. For the four Milwaukee W-2 agencies operating during the 2002-2003 contract period—OIC-GM, Maximus, UMOS, and YW Works—these expenditures declined from \$2.6 million during the 1997-1999 contract period to \$108,690 during the 2002-2003 contract period. This large decline is likely based on a number of factors:

- As Wisconsin citizens became more familiar with the W-2 program and local private agencies became known as W-2 service providers, the W-2 agencies no longer needed to expend substantial amounts for advertising.
- In response to our earlier audit reports and recommendations, DWD and W-2 agencies reviewed their W-2 expenditures more closely to avoid using program funds inappropriately.
- Because of the revenue limitations experienced by all state programs and an increase in W-2 caseloads, greater attention has been placed on limiting program costs not directly related to the provision of services.

Although Milwaukee's W-2 agencies have made substantial reductions in their advertising expenditures over time, OIC-GM exceeds others in its level of advertising and information costs. As shown in Table 14, it spent \$81,523 on advertising and information. That amount accounted for 75.0 percent of all advertising and information expenditures made by Milwaukee W-2 agencies during the 2002-2003 contract period and nearly six times the amount spent by the W-2 agency with the second-highest level of advertising and information expenditures. In this area, OIC-GM's expenditures were more than nine times the average for the other three agencies.

Table 14

**Advertising and Information Expenditures by W-2 Agencies in Milwaukee County
2002-2003 Contract Period**

Agency	Advertising and Information Expenditures	Expenditures per Participant ¹
OIC-GM	\$ 81,523	\$38.71
Maximus	13,983	7.82
UMOS	11,182	2.82
YW Works	2,002	0.71
Total	\$108,690	10.19

¹ Based on the average number of participants served per month from January 2002 through December 2003.

Both the extent and the nature of some informational expenditures raise questions about their appropriateness. For example, \$75,100 of the \$81,523 that OIC-GM spent during the 2002-2003 contract period, or 92.1 percent, was related to sponsorship of programming on a local radio station. Of the \$75,100:

- \$40,650 was paid directly to the local radio station; and
- \$34,450 was paid to Word Warriors, Inc., a company that airs a two-hour talk show on the radio station on weekday mornings.

OIC-GM did not enter into a contract with the radio station. However, documentation associated with the checks it issued to the radio station indicates that these payments were made for a Saturday morning program named "Let's Talk Neighborhoods." OIC-GM indicated that this program has a call-in format and addresses a variety of community issues that are relevant to W-2 participants, such as literacy, hospice care, housing, child welfare, computer networking, legal assistance, and health care. OIC-GM officials have indicated that they believe this program represents a unique service approach, which is encouraged by the W-2 program, and that it is an effective way of disseminating information to the community they serve.

OIC-GM entered into a series of annual contracts with Word Warriors, Inc. The 2003 contract specified that OIC-GM would pay \$650 per weekly broadcast of "Keys to W-2," a two-hour program aired Thursday mornings. However, information provided by OIC-GM indicates that W-2 was seldom discussed; instead, topics discussed were similar to those of the other radio program that OIC-GM funded. They included energy assistance, hospice care, elder abuse, domestic violence, food stamps, child support, immunizations, house weatherization, and employment for ex-offenders. OIC-GM officials indicate that this program has been effective

in disseminating information because it is the highest rated early-morning program among African Americans in Milwaukee. Officials believe that funding the radio program allows them to effectively target the urban neighborhood they serve.

In reviewing program content that was aired in summer 2004, we found that the Thursday morning program funded by OIC-GM with W-2 funds typically included announcements of community events and activities; a discussion with an invited guest on one of the topics previously mentioned; a word game in which callers can win money; and a call-in segment in which listeners ask questions about the topics being discussed, discuss other topics, or announce items they have for sale. In reviewing broadcasts, we found that programming on days not funded by OIC-GM was generally similar and followed the same basic format. However, the W-2 funded broadcasts all appeared to make an attempt to provide information that served a community interest, even if it was not related to the W-2 program. This was not always the case on other days.

From September 1997 through December 2003, OIC-GM used W-2 funds to pay \$98,650 to the radio station and \$176,300 to Word Warriors, Inc., for a total of \$274,950. The radio broadcasts provide a forum valued by many in the local community, and much of the content included in the broadcasts provides useful community information. However, the W-2 expenditures associated with these broadcasts appear to be neither ordinary nor necessary to the operation of OIC-GM or to the performance of its W-2 contracts. In addition, we question whether the financial support provided by OIC-GM actually resulted in programming substantially different from what the radio station would have broadcast in the absence of W-2 funding. W-2 is an employment program intended to assist program participants in achieving self-sufficiency through employment. It does not appear that the radio programs' content is sufficiently targeted to the purpose of the W-2 program or adequately justifies the amount of expenditures incurred.

☑ Recommendation

We recommend the Department of Workforce Development, as part of its ongoing fiscal monitoring efforts, closely review the advertising and information expenditures agencies charge to the W-2 program to ensure such expenditures are necessary to the program's administration, and place limits in future contracts on the amount of advertising and information expenditures that agencies are allowed to charge to the W-2 program.

Appendix

Unallowable and Questioned Costs for Opportunities Industrialization Center of Greater Milwaukee, Inc.
2002-2003 Contract Period

UNALLOWABLE COSTS

<u>Payee/Vendor</u>	<u>Description</u>	<u>Amount</u>
Citicorp Vendor Finance, Inc.	Late charges	\$ 145
City of Milwaukee	Towing charges and payment for release of a van from impound lot	135
George Gerharz	Consulting services related to the Workforce Investment Act program	5,532
M & I Bank	Bank fees for checks that were written but for which there were insufficient funds	1,118
TOTAL UNALLOWABLE COSTS		\$ 6,930

QUESTIONED COSTS

<u>Payee/Vendor</u>	<u>Description</u>	<u>Amount</u>
George Gerharz	Consulting services related to response to W-2 request for proposal	\$ 2,265
Jericho Resources	Consulting services related to response to W-2 request for proposal	6,750
Milwaukee Careers Cooperative	Nineteen trips in which three or fewer W-2 participants were transported	1,900
Radio Station WNOV	Sponsorship of weekly one-hour program	40,650
Sam's Club	Unknown—no receipt	360
Word Warriors Report	Sponsorship of weekly two-hour program	34,450
TOTAL QUESTIONED COSTS		\$ 86,375
TOTAL UNALLOWABLE AND QUESTIONED COSTS		\$ 93,305



WISCONSIN STATE LEGISLATURE

Joint Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

For Immediate Release

November 9, 2004

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Financial Management of OIC-GM Concerns Co-chairs

(Madison) Today the nonpartisan Legislative Audit Bureau released a financial review of the administration of the Wisconsin Works (W-2) program by Opportunities Industrialization Center of Greater Milwaukee (OIC-GM), Wisconsin's largest provider of W-2 services. OIC-GM has been awarded \$231.5 million in W-2 contracts since 1997, including \$84.4 million during the current (2004-2005) contract period, and serves approximately 50 percent of all W-2 participants in Milwaukee County, and 40 percent of all participants statewide.

"The nature of OIC-GM's complex relationships with other companies reeks of deception," remarked Co-chair Suzanne Jeskewitz (R-Menomonee Falls). These relationships include one subsidiary and several affiliates, and OIC-GM has ownership interests in other organizations. During the 2002-2003 W-2 contract period, OIC-GM paid these companies at least \$2.1 million. Given the overlapping leadership among these organizations, there is, at a minimum, the potential for OIC-GM to benefit financially through noncompetitive subcontracts involving state and federal funds.

"We have a right to expect accountability in the expenditure of public monies, and OIC-GM's record-keeping leads to more questions than answers," stated Jeskewitz. "I cannot comprehend how OIC-GM found it appropriate to retain an officer of the company as their lawyer when clearly prohibited by federal regulations."

The Legislative Audit Bureau questioned \$421,200 in state and federal funds that OIC-GM paid for legal services. This includes \$308,000 for questionable legal work that was inadequately documented, as well as \$113,200 for legal work that was performed by an officer of OIC-GM, which is not allowable under federal regulations.

"I am stunned by the flow-chart needed to explain the complex relationship OIC-GM has internally and externally. I will be raising questions about how the estimated \$4 million in indirect costs are spread across the programs it operates with state, federal and local funding," Roessler stated.

The Legislative Audit Bureau identified \$6,900 in expenditures charged to the W-2 program that are unallowable, and questioned another \$86,400 in costs that were excessive, extraordinary, or unnecessary.

- more -

OIC-GM's advertising and information expenditures were high (\$81,523) during the 2002-2003 contract period, compared to the average of the other three Milwaukee County agencies (\$9,056). A total of \$75,100 of OIC-GM's expenditures was related to sponsorship of programming on a local radio station. It does not appear that the content of the programming is sufficiently targeted to the purpose of the W-2 program or adequately justifies the expenditures. OIC-GM spent an additional \$199,850 on radio programming from 1997 through 2001.

"I have questions about the appropriateness of W-2 expenditures for radio broadcasts. The \$275,000 in radio expenditures seems unnecessary to the performance of the W-2 contract. I expect these expenditures to be reviewed and explained at our hearing in December," Roessler added. "I also have serious concerns about the operations of OIC-GM. For example, OIC-GM spent 66.1% more on telecommunication expenses than Maximus."

The Legislature Audit Bureau identified a number of recommendations, which should be implemented quickly. Both Co-Chairs Jeskewitz and Roessler agree that a public hearing must be held in December 2004 to discuss the findings in this report and the implementation status of the audit recommendations.

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Jim Doyle
Governor

Roberta Gassman
Secretary



State of Wisconsin

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LAB AFFIRMS INITIAL DWD FINDINGS - DWD Places Additional Oversight on OIC-GM

Today Wisconsin Department of Workforce Development (DWD) Secretary Roberta Gassman said that DWD had reviewed the Legislative Audit Bureau's (LAB) new financial review of Opportunities Industrialization Center of Greater Milwaukee, Inc.'s (OIC-GM) operation of the W-2 program and has concluded that the review affirms DWD's recent findings regarding the need for strong improvements in the fiscal management and operation of the W-2 program in Regions 1, 3, and 4 of Milwaukee.

"DWD has continuing concerns about OIC-GM's management of the W-2 program in three W-2 regions of Milwaukee and is taking additional steps to assure that the needs of the program, the participants and the public are protected," said Gassman.

On September 21, DWD required OIC-GM to submit a Corrective Action Plan to address their weak program, financial and management practices and procedures.

Given OIC-GM's responses to DWD's concerns, as well as LAB's new findings, DWD will implement the following contract changes to ensure quality service delivery of the W-2 program in the second year of our W-2 contract with OIC-GM for services in Milwaukee Regions 1, 3, and 4:

1. DWD will require that an outside accounting entity be engaged to oversee all fiscal management aspects of the W-2 program in Regions 1, 3 and 4;
2. DWD will reallocate DWD staff to Regions 1, 3, and 4 to increase DWD's program management oversight of all W-2 operations on site; and,
3. DWD will require the continued presence of a special monitor to ensure that all OIC-GM transition duties are implemented during the second year of the contract.

If, after further review, DWD finds that OIC-GM, even with these changes, will not have the capacity to successfully manage all three W-2 regions next year, DWD will take additional steps to reorganize its contract arrangements further with OIC-GM.

"We want to go forward in the best interest of W-2 participants, the public and OIC-GM," Secretary Gassman said.

For the past year DWD has been engaged in an aggressive effort to assure that OIC-GM provides the best possible W-2 services to its participants in a manner that finds jobs for recipients in the most cost-effective manner.

--more--

dwd.wisconsin.gov

DWD began its intensive review of OIC-GM practices following charges last November regarding kickbacks from OIC-GM and improper use of public W-2 funds.

DWD has communicated to OIC-GM numerous times during 2004 (see following chronology), and has identified a number of areas of continuing deficiency by OIC-GM:

- Inadequate program operations and management;
- Growing caseloads with limited workforce attachment actions;
- Performance standards not being met;
- Improper administrative and fiscal procedures; and,
- Lack of responsiveness to requests by the Department and outside auditors.

DWD is charged with overseeing the W-2 program, which involves substantial federal and state funds for connecting low-income people to work and lives of economic self-sufficiency. W-2 is one of Wisconsin's most important programs, especially as state leaders are working hard to grow Wisconsin's economy. "While Wisconsin has experienced a positive increase in employment over the last year, we want to continue on the path of helping all of Wisconsin's citizens take part in this recovery," said Secretary Gassman.

OIC-GM has a major role in the success of the entire statewide W-2 program, particularly in the current two-year contract cycle, as their new area of responsibility increased last January from one to three W-2 regions. OIC-GM's W-2 contract currently represents 33% of the state's W-2 resources. The total caseload of W-2 participants in the three regions OIC-GM manages comprises 41% of the entire state's W-2 caseload.

DWD will be incorporating LAB's recommendations into its ongoing CAP with OIC-GM. "I very much appreciate and thank LAB and their analysis and findings on these critical issues," added Gassman.

Attachment - Chronology of DWD Actions with OIC

Jim Doyle
Governor

Roberta Gassman
Secretary



State of Wisconsin

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**CHRONOLOGY OF DWD ACTIONS TAKEN WITH OIC-GM SINCE
DECEMBER 2003
11/9/04**

December

- DWD notified OIC-GM that DWD will audit the use of W-2 funds and payments to relatives of Gary George.
- DWD alerted OIC-GM that they would be required to employ an on site special monitor to oversee program compliance.

January

- DWD inserted special language into the two-year W-2 contract with OIC-GM, stating that the Department may reconsider the extension of the W-2 contract beyond the initial contract year (2004).

February

- DWD's Legal Counsel issued a letter to OIC-GM confirming DWD's contract language with OIC-GM requiring three separate audit and monitoring actions:
 1. Requiring a single agency audit with an independent audit firm, Virchow Krause;
 2. Requiring a financial monitoring entity, SFS Group LTD, to review all OIC-GM fiscal systems; and,
 3. Notifying OIC-GM that DWD would send its own internal auditors to OIC-GM to monitor procurement process, billing and retainers.

August

- DWD disallowed \$215,997 in W-2 costs associated with illegal payments made in relation to the Gary George and Carl Gee indictments and \$58,780 in costs related to the failure of OIC-GM to engage a new audit firm in a timely manner as required by the Department.

September

- DWD took the unusual step of issuing a letter to OIC-GM requiring that they submit a Corrective Action Plan (CAP) to DWD; this CAP eliminates the ability of OIC-GM to have a "right of first selection" for any future W-2 contracts (OIC-GM is the only W-2 Agency, among 48, that has been placed under a CAP this year). The CAP requires a series of program and financial actions by OIC-GM within strict timeframes as a condition for continued operation of the W-2 contract.

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October

- DWD issued a follow-up letter to OIC-GM's inadequate CAP specifying additional required actions by OIC-GM.

November

- DWD's top leaders met with OIC-GM's top leaders to review the seriousness of the outstanding issues before OIC-GM and to inform OIC-GM of additional fiscal and program management oversight steps that DWD would be taking.

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